

TOWN OF CEDAR FORT

FINANCIAL STATEMENTS

JUNE 30, 2006

TOWN OF CEDAR FORT

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GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council
Town of Cedar Fort
Cedar Fort, UT

April 20, 2007

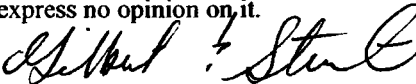
We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Cedar Fort, Utah, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of The Town of Cedar Fort's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred above present fairly, in all material respects, the respective financial position, of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Cedar Fort, as of June 30, 2006, and the respective changes in financial position and cash flows where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2007 on our consideration of the Town of Cedar Fort's internal control structure over financial reporting and on our test of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Cedar Fort, we offer readers of the Town of Cedar Fort's financial statements this narrative overview and analysis of the financial activities of the Town Cedar Fort for the fiscal year ended June 30, 2006.

Financial Highlights

- As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$(74,052). Of this amount \$69,510 is reserved and must only be spent on projects for which the money is reserved. The remaining \$(143,562) is unreserved in the General Fund.
- The total net assets of \$1,760,839 are made up of \$1,705,704 in capital assets net of related debt and \$55,135 in other net assets.
- In the Enterprise (Proprietary) Funds operating revenues decreased by \$43,853. Corresponding operating expenses decreased by \$6,958.

Reporting the Town as a Whole

This discussion and analysis is intended to serve as an introduction to the Town of Cedar Fort's basic financial statements. The Town of Cedar Fort's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Cedar Fort's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of the Town of Cedar Fort's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Cedar Fort is improving or deteriorating. However, you will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the Town of Cedar Fort that are principally supported by taxes and intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 7 and 8 of this report.

Reporting the Town's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Cedar Fort also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on pages 9-12 of this report.

The major governmental fund (as determined by generally accepted accounting principles) is the General Fund.

Proprietary funds – Town of Cedar Fort maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Cedar Fort uses enterprise funds to account for its Water and Landfill utilities.

The basic proprietary fund financial statements can be found on pages 13-15 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Cedar Fort, assets exceed liabilities by \$1,760,839.

One of the largest portion of the Town of Cedar Fort's net assets (97%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the Town's net assets.

Town of Cedar Fort's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ (45,781)	\$ 9,090	\$ 127,127	\$ 115,081	\$ 81,346	\$ 124,171
Capital assets	1,061,635	1,084,838	743,069	703,224	1,804,704	1,788,062
Total assets	1,015,854	1,093,928	870,196	818,305	1,886,050	1,912,233
Long-term debt outstanding	-	-	82,000	99,000	82,000	99,000
Other liabilities	26,148	28,578	17,063	30,590	43,211	59,168
Total liabilities	26,148	28,578	99,063	129,590	125,211	158,168
Net assets:						
Invested in capital assets,						
Net of related debt	1,061,635	1,084,838	644,069	588,224	1,705,704	1,673,062
Restricted	69,510	63,022	17,000	16,000	86,510	79,022
Unrestricted	(141,439)	(82,510)	110,064	84,491	(31,375)	1,981
Total net assets	\$ 989,706	\$ 1,065,350	\$ 771,133	\$ 688,715	\$ 1,760,839	\$ 1,754,065
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	\$ 30,054	\$ 34,895	\$ 106,799	\$ 62,946	\$ 136,853	\$ 97,841
Operating grants & contrib	27,428	33,204	23,910	-	51,338	33,204
Capital grants & contrib	55,071	45,410		122,187	55,071	167,597
General revenues:						
Property taxes	12,543	10,097		-	12,543	10,097
General sales & use tax	19,619	32,857		-	19,619	32,857
Other	2,325	1,771	325	203	2,650	1,974
Total revenues	147,040	158,234	131,034	185,336	278,074	343,570
Expenses:						
General government	24,983	36,809		-	24,983	36,809
Public safety	128,108	95,364		-	128,108	95,364
Highways & public works	53,803	26,470		-	53,803	26,470
Parks and Recreation	15,790	18,689		-	15,790	18,689
Water & Sanitation		-	48,616	55,574	48,616	55,574
Total expenses	222,684	177,332	48,616	55,574	271,300	232,906
Increase (decr) in net assets	(75,644)	(19,098)	82,418	129,763	6,774	110,665
Net assets - beginning	1,065,350	1,084,448	688,715	558,952	1,754,065	1,643,400
Net assets - ending	\$ 989,706	\$ 1,065,350	\$ 771,133	\$ 688,715	\$ 1,760,839	\$ 1,754,065

Business-type activities. Business-type activities increased the Town's net assets by \$129,763. As of the end of the current fiscal year, the Town's business-type funds reported positive net assets.

Financial Analysis of the Government's Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of the current fiscal year, the Town's governmental fund reported a fund balance of (\$74,052) of this total amount (\$143,562) constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was (\$143,562) while total fund balance reached (\$74,052). As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

The Town maintains enterprise funds to account for the business-type activities of the Town. The information is found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the combined Enterprise fund at the end of the year amounted to \$110,064. The value of capital assets net of related debt in these same funds is \$644,069. As mentioned in the financial highlights, operational revenues and expenditures in the Enterprise funds decreased by 31% and 13 %, respectively.

General Fund Budgetary Highlights

During the fiscal year, the General Fund's original budget was \$246,950. The budget was not amended during the year.

Capital Assets and Debt Administration

Capital Assets. The Town of Cedar Fort's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$1,804,704 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress.

Town of Cedar Fort's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$ 144,679	\$ 144,679			\$ 144,679	\$ 144,679
Buildings	423,574	411,190			423,574	411,190
Improvements			431,037	719,159	431,037	719,159
Equipment	69,742	84,685			69,742	84,685
Infrastructure	427,083	401,321			427,083	401,321
Water Shares	19,760	19,760			19,760	19,760
Construction in progress			272,187	23,910	272,187	23,910
Total net assets	\$ 1,084,838	\$ 1,061,635	\$ 703,224	\$ 743,069	\$ 1,788,062	\$ 1,804,704

Additional information on the Town's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the Town had total debt outstanding of \$99,000. All of which is a note payable in the general fund for the construction of a sprinkling system in the Cemetery of the Town.

The Town's total outstanding debt decreased by \$16,000 during Fiscal year 2006. This was a result of the required debt service payments.

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value. The current limitations for the Town are \$473,547, which is significantly in excess of the Town's outstanding general obligation debt. In addition, state statutes allows for an additional 8% to be used for water, sewer, or other revenue bond projects thus resulting in a debt limit of 12% of total taxable value. Total limitation is \$1,420,640, which again significantly exceeds the outstanding debt.

Additional information on the Town's long-term debt can be found in the footnotes to this financial report.

Request For Information

This financial report is designed to provide a general overview of Cedar Fort's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Town of Cedar Fort, 75 South Church Street, Cedar Fort, UT 84013.

BASIC FINANCIAL STATEMENTS

TOWN OF CEDAR FORT
Statement of Net Assets
June 30, 2006

	Primary Government Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 46,983	\$ 46,983
Receivables:			
Taxes	21,333		21,333
Intergovernmental	9,665		9,665
Accounts		3,365	3,365
Internal Balances	(76,779)	76,779	-
Capital assets (net of accumulated depreciation):			
Construction in progress		23,910	23,910
Water stock	19,760		19,760
Land	144,679		144,679
Buildings	411,190		411,190
Improvements other than buildings	-	719,159	719,159
Equipment	84,685		84,685
Infrastructure	401,321		401,321
Total assets	<u>1,015,854</u>	<u>870,196</u>	<u>1,886,050</u>
LIABILITIES			
Accounts Payable	13,569	63	13,632
Accrued liabilities	79		79
Deferred Revenue	12,500		12,500
Long-term Liabilities			
Due within one year		17,000	17,000
Due in more than one year		82,000	82,000
Total liabilities	<u>26,148</u>	<u>99,063</u>	<u>125,211</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,061,635	644,069	1,705,704
Restricted for:			
Class "C" roads	47,757		47,757
Perpetual Care	6,391		6,391
Impact Fees	15,362		15,362
Debt Service		17,000	17,000
Unrestricted	(141,439)	110,064	(31,375)
Total net assets	<u>\$ 989,706</u>	<u>\$ 771,133</u>	<u>\$ 1,760,839</u>

The notes to the financial statement are an integral part of this statement.

TOWN OF CEDAR FORT
Statement of Activities
For the Year Ended June 30, 2006

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities	
			Grants and Contributions	Capital Contributions		Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 24,983	\$ 15,784	\$ -	\$ -	\$ (9,199)	\$ -	\$ (9,199)
Public safety	128,108	12,386	27,428		(88,294)		(88,294)
Highways and public improvements	53,803	-	-	55,071	1,268		1,268
Parks and recreation	15,790	1,884	-	-	(13,906)		(13,906)
Total governmental activities	222,684	30,054	27,428	55,071	(110,131)		(110,131)
Business-type activities:							
Water & Landfill	48,616	106,799		23,910		82,093	82,093
Total business-type activities	48,616	106,799	-	23,910		82,093	82,093
Total primary government	\$ 271,300	\$ 136,853	\$ 27,428	\$ 78,981	(110,131)	82,093	(28,038)
General revenues:							
Property Taxes					\$ 12,543	\$ -	\$ 12,543
Sales Tax					19,619	-	19,619
Unrestricted investment earnings					2,325	325	2,650
Total General Revenues					34,487	325	34,812
Change in net assets					(75,644)	82,418	6,774
Net assets - beginning					1,065,350	688,715	1,754,065
Net assets - ending					\$ 989,706	\$ 771,133	\$1,760,839

The notes to the financial statements are an integral part of this statement.

TOWN OF CEDAR FORT**Balance Sheet****Governmental Funds**

June 30, 2006

	<u>General Fund</u>
ASSETS	
Receivables (net):	
Taxes	\$ 21,333
Intergovernmental	9,665
Total assets	<u>\$ 30,998</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 13,569
Due to other Funds	76,779
Accrued liabilities	79
Deferred revenue	14,623
Total liabilities	<u>105,050</u>
 Fund balances:	
Reserved for:	
Class "C" Road	47,757
Perpetual Care	6,391
Impact Fees	15,362
Unreserved, reported in:	
General fund	<u>(143,562)</u>
Total fund balances	<u>(74,052)</u>
Total liabilities and fund balances	<u>\$ 30,998</u>

The notes to the financial statement are an integral part of this statement.

TOWN OF CEDAR FORT
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2006

Total fund balances - governmental fund types: \$ (74,052)

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the funds.

Cost of Capital Assets	\$ 1,928,340
Accumulated Depreciation	<u>(866,705)</u>

Net adjustment to increase <i>fund balance-total</i> <i>governmental funds</i> to arrive at <i>net assets-governmental activities</i>	1,061,635
--	-----------

Long-term assets are not available to pay for current-period expenditures	
Delinquent Property Taxes	<u>2,123</u>

Net adjustments to increase <i>fund balance -</i> <i>Total governmental funds</i> to arrive at <i>net assets - governmental activities.</i>	2,123
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	<u><u>\$ 989,706</u></u>
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TOWN OF CEDAR FORT
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2006

Total fund balances - governmental fund types: \$ (74,052)

Amounts reported for governmental activities in the statement of net assets
are different because:

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Long-term assets are not available to pay for current-period expenditures

Delinquent Property Taxes	<u>2,123</u>
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Net adjustments to increase <i>fund balance -</i> <i>Total governmental funds</i> to arrive at <i>net assets - governmental activities.</i>	2,123
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	<u><u>\$ 989,706</u></u>
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TOWN OF CEDAR FORT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

	<u>General Fund</u>
REVENUES	
Taxes	\$ 30,508
Licenses and permits	15,554
Intergovernmental	82,499
Charges for services	14,271
Miscellaneous revenue	2,554
Total revenues	<u>145,386</u>
EXPENDITURES	
Current:	
General government	24,983
Public safety	139,342
Highways and public improvements	28,041
Parks, recreation, and public property	7,115
Total expenditures	<u>199,481</u>
Excess revenues over (under) expenditures	<u>(54,095)</u>
Other financing sources (uses)	
Contributions	<u>-</u>
Total other financing sources and uses	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	(54,095)
Fund balances - beginning of year	<u>(19,957)</u>
Fund balances - end of year	<u><u>\$ (74,052)</u></u>

The notes to the financial statement are an integral part of this statement.

TOWN OF CEDAR FORT
Statement of Changes Reconciliation to
Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds \$ (54,095)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	\$ 34,142
Depreciation Expense	<u>(57,345)</u>

Net adjustment to *increase net changes in fund balances-total governmental funds* to arrive at *changes in net assets of governmental activities* (23,203)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Property and Sales Tax	<u>1,654</u>
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Net adjustment to *increase net changes in fund balances-total governmental funds* to arrive at *changes in net assets of governmental activities* 1,654

Change in net assets of governmental activities \$ (75,644)

The notes to the financial statement are an integral part of this statement.

TOWN OF CEDAR FORT

Statement of Net Assets

Proprietary Funds

June 30, 2006

	<u>Business-Type Activities - Enterprise Funds Water & Sanitation Fund</u>
ASSETS	
Current assets:	
Cash	\$ 46,983
Receivables - net	
Services	3,365
Due from other Funds	76,779
Total current assets	<u>127,127</u>
Noncurrent assets:	
Water Distribution System	972,635
Less: Accumulated depreciation	(253,476)
Construction in Progress	23,910
Total noncurrent assets	<u>743,069</u>
Total assets	<u><u>\$ 870,196</u></u>
LIABILITIES	
Current liabilities:	
Accounts Payable	63
Long Term Debt - Current	17,000
Total current liabilities	<u>17,063</u>
Noncurrent liabilities:	
Long term Debt	82,000
Total noncurrent liabilities	<u>82,000</u>
Total liabilities	<u>99,063</u>
Net Assets:	
Invested in capital assets, net of related debt	588,224
Restricted	17,000
Unrestricted	165,909
Total net assets	<u><u>\$ 771,133</u></u>

The notes to the financial statement are an integral part of this statement.

TOWN OF CEDAR FORT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities
	<u>Enterprise Funds</u>
	<u>Water & Landfill Fund</u>
Operating revenues:	
Charges for sales and services	\$ 81,982
Other Income	24,817
Total operating revenues	<u>106,799</u>
Operating expenses:	
Employee salaries	2,708
Services	22,786
Supplies	7,785
Payroll Taxes	199
Utilities	1,019
Depreciation	14,119
Total operating expenses	<u>48,616</u>
Operating income	<u>58,183</u>
Nonoperating revenues (expenses):	
Interest revenue	325
Grants	23,910
Total nonoperating revenues (expenses)	<u>24,235</u>
Income (loss) before transfers	<u>82,418</u>
Total net assets - beginning	688,715
Total net assets - ending	<u>\$ 771,133</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CEDAR FORT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business- Type Activities Enterprise Fund <u>Water</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 109,683
Advances to other funds	(60,091)
Payments to suppliers	(46,117)
Payments to employees	(2,907)
Net cash provided (used) by operating activities	<u>568</u>
Cash Flows From Noncapital Financing Activities	0
Cash Flows From Capital and Related Financing Activities	
Grant Proceeds	23,910
Purchase of Capital Assets	(53,964)
Principal paid on capital debt	(16,000)
Interest paid on capital debt	
Net cash provided (used) by capital and related financing activities	<u>(46,054)</u>
Cash Flows From Investing Activities	
Interest and dividends received	<u>325</u>
Net increase (decrease) in cash and cash equivalents	(45,161)
Cash and cash equivalents - beginning	92,144
Cash and cash equivalents - ending	<u>\$ 46,983</u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	<u>\$ 58,183</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	14,119
(Increase) decrease in accounts receivable	2,884
(Increase) decrease in due from other funds	(60,091)
Increase (decrease) in accounts payable	(14,527)
Total adjustments	<u>(57,615)</u>
Net cash provided (used) by operating activities	<u>\$ 568</u>

See accompanying notes to the financial statements.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Cedar Fort (the Town) is located in western Utah County in the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a Town Council. The Town provides the following services as mandated by law: General Administrative Services, Public Safety, Highways and Public Improvements, Parks, Recreation and Public Property, Water, and Sanitation Services.

The Town of Cedar Fort financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict the GASB pronouncements. The Town applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established by GAAP and used by the Town are discussed below.

Government Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: 1) charges to customers or applicants who purchase, use directly benefit from goods, services, or privileges, provided by a given function or activity or 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurements focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable, and available"). "Measurable" means the amount of the transaction can be determined and "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Sales taxes, Use taxes, Franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the Town receives the cash.

The Town reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Town reports the following major proprietary fund:

The *Water and Sanitation Fund* accounts for the water and sanitation activities of the Town.

As a general rule, the effect of inter-fund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by enterprise funds for the providing of administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions concerned.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 – SUMMARY (*Continued*)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

A. Cash and Cash Equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. Town policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The fund operates in accordance with state laws and regulations. The reported value of the Town's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this criteria.

B. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary, or bonding requirements by outside parties, is classified as "restricted cash" on the Financial Statements. Restricted cash would be spent first and then unrestricted would be used when the restricted funds are depleted. The Town does not have any restricted assets.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (Continued)

C. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives.

<u>Assets</u>	<u>Years</u>
Buildings and structures	30-50
Infrastructure	30-50
Improvements other than buildings	10-40
Machinery and equipment	5-10

E. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st, and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (Continued)

The Town Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

F. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

G. Fund Equity

In the fund statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restriction imposed by creditors, grantors or laws or regulations of other governments.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (Continued)

I. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the Town. Budgets are adopted on a basis consistent with generally accepted accounting principles.

The Town adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the Town Council in May, the Town clerk, authorized under state statute to be appointed budget officer, submits a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is posted in various locations in the Town at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The Town clerk, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The Town Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - BUDGETS (Continued)

- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year-end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

NOTE 4 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits and Investments

Deposits and Investments for the Town of Cedar Fort are governed by the Utah Money Management Act (the Act.) and by rules of the Utah Money Management Council (the Council). Following are discussions of the local government's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy for managing custodial credit risk is to adhere to the Act. The Act requires all deposits of the Town to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council. As of June 30, 2006, none of the Town's bank balances were uninsured and uncollateralized.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Town's policy for limiting the credit risk of investments is to comply with the Act.

The Town is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - BUDGETS (Continued)

For the year ended June 30, 2006, the local government had investments of \$43,072 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

C. Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Act. The Act requires that the remaining term to maturity of investments may not exceed the availability of the funds to be invested.

NOTE 5 - RECEIVABLES

	<u>General</u>	<u>Water& Landfill</u>	<u>Total</u>
Receivables:			
Taxes	\$ 21,333	\$ -	\$ 21,233
Intergovernmental	9,665	-	9,665
Accounts	-	3,365	3,365
Allowance for Uncollectible Accounts	-	-	-
Total Receivables	<u>\$ 30,998</u>	<u>\$ 3,365</u>	<u>\$ 34,363</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	<u>\$ 14,623</u>	<u>\$ -</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to / from other funds:		
Receivable fund	<u>Payable fund</u>	<u>Amount</u>
Water & Sanitation fund	General	<u>\$ 76,779</u>

Interfund balances are created to support temporary cash deficiencies in the applicable funds.

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 144,679	\$ -	\$ -	\$ 144,679
Construction in progress				0
Water Shares	19,760			19,760
Total capital assets not being depreciated	164,439	-	-	164,439
Capital assets being depreciated:				
Buildings	478,421			478,421
Machinery and equipment	220,899	34,142		255,041
Infrastructure	1,030,439			1,030,439
Total capital assets being depreciated	1,729,759	34,142	-	1,763,901
Less accumulated depreciation for:				
Buildings	54,847	12,384		67,231
Machinery and equipment	151,157	19,199		170,356
Infrastructure	603,356	25,762		629,118
Total accumulated depreciation	809,360	57,345	-	866,705
Total capital assets, being depreciated, net	920,399	(23,203)	-	897,196
Governmental activities capital assets, net	\$ 1,084,838	\$ (23,203)	\$ -	\$ 1,061,635
Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Construction in Progress	\$ 272,187	\$ 23,910	\$ (272,187)	\$ 23,910
Total capital assets not being depreciated	272,187	23,910	(272,187)	23,910
Capital assets being depreciated:				
Improvements other than buildings	670,394	302,241		972,635
Total capital assets being depreciated	670,394	302,241	-	972,635
Less accumulated depreciation for:				
Improvements other than buildings	239,357	14,119		253,476
Total accumulated depreciation	239,357	14,119	-	253,476
Total capital assets, being depreciated, net	431,037	288,122	-	719,159
Business-type activities capital assets, net	\$ 703,224	\$ 288,122	\$ (272,187)	\$ 719,159

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ -
Public safety	22,908
Highways and public improvements	25,762
Parks and recreation	8,675
Total depreciation expense - governmental activities	<u>\$ 57,345</u>

Business-type activities:

Water and sewer	\$ 14,119
Total depreciation expense - Business-Type Activities	<u>\$ 14,119</u>
Total depreciation expense	<u>\$ 71,464</u>

NOTE 8 – LONG-TERM DEBT

Bonds and notes payable consist of a non-interest bearing note to the Utah Safe Drinking Water Committee with alternating annual installments of \$16,000 or \$17,000 on January 1st of each year.

<u>Fiscal Year</u>	<u>Principal</u>
2007	17,000
2008	16,000
2009	17,000
2010	16,000
2011	17,000
2012	16,000
Total	<u>\$ 99,000</u>

Changes in Long-term debt:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Due in One Yr</u>
Governmental Activities:					
Notes Payable	<u>\$115,000</u>	<u>\$ -</u>	<u>\$16,000</u>	<u>\$99,000</u>	<u>\$17,000</u>

TOWN OF CEDAR FORT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 9 – RESERVED FUND BALANCES

Reserved fund balance comprises amounts which the Town has designated for specific purposes or are amounts held by committees for which the Town has oversight responsibility.

<u>Governmental Activities</u>	
General Fund	Amount
Class "C" Roads	\$ 47,757
Cemetery Perpetual Care	6,391
Road Impact Fees	15,362
Total Governmental Activities	<u>\$ 69,510</u>

NOTE 10 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Town to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the Town pays in the event of any loss. The Town also has purchased a workers' compensation policy. Losses have not exceeded coverage during the last three years.

NOTE 11 – OTHER DISCLOSURES

Accounting principles generally accepted in the United States of America require disclosure as part of the basic financial statements of certain information concerning individual funds.

The General Fund as of June 30, 2006 has a negative fund balance of (\$74,052).

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF CEDAR FORT
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
General Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Totals</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Taxes	\$ 49,500	\$ 49,500	\$ 30,508	\$ (18,992)
Licenses and Permits	5,000	5,000	15,554	10,554
Intergovernmental	176,100	176,100	82,499	(93,601)
Charges for Services	34,000	34,000	14,271	(19,729)
Fines and Forfeitures	-	-	-	-
Impact Fees	-	-	-	-
Miscellaneous	2,350	2,350	2,554	204
Total Revenues	<u>266,950</u>	<u>266,950</u>	<u>145,386</u>	<u>(121,564)</u>
EXPENDITURES				
Current:				
General Government	20,200	20,200	24,983	(4,783)
Public Safety	44,750	44,750	139,342	(94,592)
Highways and Streets	26,000	76,000	28,041	47,959
Culture and Recreation	155,500	105,500	7,115	98,385
Debt Service	-	-	-	-
Total Expenditures	<u>246,450</u>	<u>246,450</u>	<u>199,481</u>	<u>46,969</u>
Excess (deficit) of revenues over (under) expenditures	20,500	20,500	(54,095)	(74,595)
OTHER FINANCING SOURCES (USES)				
Contributions	-	-	-	-
Net Change in Fund Balance	20,500	20,500	(54,095)	(74,595)
Fund balance - beginning	(19,957)	(19,957)	(19,957)	-
Fund balance - ending	<u>\$ 543</u>	<u>\$ 543</u>	<u>\$ (74,052)</u>	<u>\$ (74,595)</u>

See accompanying notes to the financial statements.

OTHER REPORTS

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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LYNN A. GILBERT, CPA
JAMES A. GILBERT, CPA
BEN H. PROBST, CPA
RONALD J. STEWART, CPA

SIDNEY S. GILBERT, CPA
JAMES E. STEWART, CPA
ROBERT PHELPS, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 20, 2007

Honorable Mayor and Town Council
Town of Cedar Fort
Cedar Fort, Utah

We have audited the accompanying financial statements of the Governmental activities, business-type activities, and each major fund, of the Town of Cedar Fort for the year ended June 30, 2006, and have issued our report thereon dated April 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

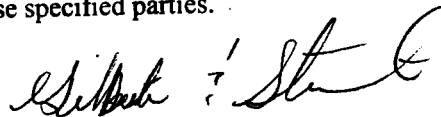
Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of The Town of Cedar Fort, for the year ended June 30, 2006, we obtained an understanding of the internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal controls over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of The Town of Cedar Fort's compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART
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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

Honorable Mayor and Town Council
Town of Cedar Fort
Cedar Fort, Utah

April 20, 2007

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of The Town of Cedar Fort for the year ended June 30, 2006, and have issued our report thereon dated April 20, 2007.

The Town did not receive any non-major grants.

Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Truth in Taxation & Property Tax Limitations
Public Debt
Cash Management

Class C Roads
Impact Fees
Other General Issues

The Town did not receive any major State grants during the year ended June 30, 2006.

The management of the Town of Cedar Fort is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Town of Cedar Fort complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2006.

This report is intended solely for the information of management and the Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

**TOWN OF CEDAR FORT
MANAGEMENT LETTER**

JUNE 30, 2006

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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ROBERT PHELPS, CPA

April 20, 2007

Honorable Mayor and Town Council
Town of Cedar Fort
Cedar Fort, UT

We have audited the financial statements of Town of Cedar Fort for the year ended June 30, 2006 and have issued our report thereon dated April 20, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Town of Cedar Fort. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Town of Cedar Fort's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

This letter is issued as required by Statement on Auditing Standards No. 61, "Communications with audit committees", which requires auditors to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

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Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Town of Cedar Fort are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Town of Cedar Fort during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Town of Cedar Fort's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the Town, either individually or in the aggregate, indicate matters that could have a significant effect on the Town's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

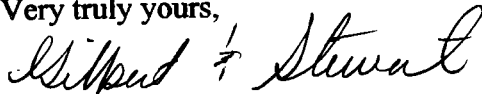
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the management of the Town of Cedar Fort, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Gilbert & Stewart", written in dark ink.

GILBERT & STEWART
Certified Public Accountants

Town of Cedar Fort

P.O. Box 389 Cedar Fort, Utah 84013
Cell 310-0184 Phone 768-2676

J Howard Anderson, Mayor (768-8176)

Machelle Clegg (766-1646) Nyle Jacobsen (768-1820) Chris Murphy (768-4519) Brad Norris (319-8894)

1 October 2007

Office of the State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
PO Box, 142310
Salt Lake City, Utah 84114-2310
801-538-1334 Tel
801-538-1383 Fax

Attn: Richard Moon

Dear Mr. Moon:

My sincere apologies for the delay in responding to your request for an action plan regarding our budget issues. Your second letter dated May 24, 2007 referenced our financial report submitted for YE June 30, 2006. I am assuming that you are also referencing the issues raised in our audit ending June 30, 2005 (prior to my tenure). We have had lengthy discussions about how we can correct the deficiencies in our procedure. Here are the 2005 issues and our responses:

Utah State Compliance findings for year ending June 30, 2005:

05-1 State law prohibits the Town from incurring expenditures in excess of those budgeted.

Response: We will monitor the budget each quarter to ensure that it does not exceed the quarterly allocation. Adjustments will be made as necessary. The councilman over budgets will initiate the quarterly meetings and public hearings as necessary to inform the public. We will adjust the budget quarterly to account for unforeseen situations. We have installed new software to monitor the functions and alert us to any problems. We are also initiating State Gas and Credit cards to monitor our expenses more closely.

05-2 State law prohibits the Town from incurring a deficit fund balance in any fund.

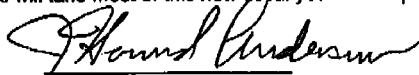
Response: Our General Fund has a deficit and we will eliminate that deficit over the next several years. We passed a final 2007-2008 budget after approving a property tax increase of 108% (the first in our history) on August 28, 2007. We will also closely monitor public safety to minimize over-runs. The Mayor will oversee the total budget balancing effort with the help of the council person over budgets.

05-3 State law requires financial statements to be filed within 6 months of fiscal year end.

Response: We will complete the filings by the due dates. Both the Mayor and the councilman over budgets will ensure that the budget information is submitted within the time limits required.

These items will take most of this new fiscal year to complete, but we will be reviewing quarterly.

Sincerely,



J Howard Anderson
Mayor, Cedar Fort